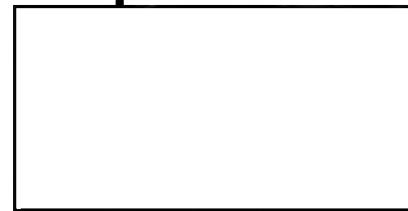


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JAPAN - MIDDLE EAST: Tokyo is moving to implement pledges made by Deputy Prime Minister Miki during his recent 19-day visit to the Middle East. These include a \$140-million loan to Egypt to help reopen the Suez Canal, expeditious conclusion of an economic cooperation agreement with Iraq, a step-up in shipments of cement and plastics to the Middle East, and an economic mission to Iraq and Egypt early next year.

Minister of International Trade and Industry Nakasone will also visit Iraq and Iran in early January in a further effort to improve Japanese access to Middle East oil.

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During his last visit to the Middle East in mid-1973, Nakasone made a special effort to avoid identifying Japanese interests with those of other oil-consuming countries.

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JAPAN: Tokyo will limit its budget outlays during 1974 in an effort to check spiraling prices, but inflation will continue to be a serious problem.

The government has adopted a budget calling for a 19-percent increase in outlays during the fiscal year ending in March 1975--the first time in three years the increase is to be less than 20 percent. The sharpest slowdown in spending will be in public investment which is scheduled to increase by only 14 percent above this year's initial budget.

The new budget reflects the first serious effort to use fiscal policy to slow inflation which accelerated throughout 1973. By November, wholesale prices were 22 percent above the previous year's level, while consumer prices were up nearly 15 percent. Tokyo estimates that the wholesale price index rose by 5.5 percent in December alone, and a further sharp increase is expected in early 1974 when the full effects of the latest oil price hikes will be felt. Even before the oil price increases, wholesale prices were expected to increase during 1974 by 10 percent or more over the 1973 levels.

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SPAIN: General Franco's choice of Interior Minister Carlos Arias Navarro as his new premier indicates that the new government will place increased emphasis on law and order following the assassination of Arias' predecessor.

Arias, who has a reputation for toughness dating from 1957 to 1965 when he was chief of Spain's security services, is also known for his complete loyalty to Franco. He lacks ties to any political faction, and can be expected to carry on Franco's political system in the post-Franco era. Arias is a staunch monarchist and supporter of Prince Juan Carlos, Franco's designate to be king when Franco dies or is incapacitated.

The government's hard line toward dissent was underscored on December 29 when stiff sentences were imposed on the "Carabanchel Ten," dissident labor leaders whose three-day trial began on the day Premier Carrero Blanco was killed. The ten were found guilty of "illegal association" in trying to promote a free labor union and received the maximum possible sentences, which ranged from 12 to 20 years. Prior to the assassination, there was some chance the court might have imposed lighter sentences to counter foreign charges that the trial was proof of the lack of political and labor freedom in Spain.

The country remains calm as the police continue their efforts to apprehend the assassins, whom the government has identified as members of ETA, an illegal Basque terrorist organization. The government will play up the selection of the new premier as evidence of the smooth functioning of its political institutions in the wake of Carrero Blanco's assassination.

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South Vietnam: New fighting has broken out in Quang Duc Province, but government troops appear to be holding their own. According to a Saigon spokesman, North Vietnamese forces initiated the fighting with artillery and infantry attacks against two government troop positions on December 28. [redacted]

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Turkey: President Koruturk has directed interim Prime Minister Talu to continue to search for a new government. According to press reports from Ankara, Talu was instructed to work toward a "national coalition" in close cooperation with the leaders of the Republican Peoples Party and the Justice Party, the two strongest groups in parliament, both of whom failed to form a government on their own. [redacted]

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*These items were prepared by CIA without consultation with the Departments of State and Defense.

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